Nucor (NUE) Earnings Report: Q1 2015 Conference Call Transcript

The following Nucor conference call took place on April 23, 2015, 02:00 PM ET. This is a transcript of that earnings call:

Company Participants

- John Ferriola; Nucor; Chairman, President, CEO
- Jim Frias; Nucor; CFO

Other Participants

- Luke Folta; Jefferies; Analyst
- Timna Tanners; Bank of America Merrill Lynch; Analyst
- Evan Kurtz; Morgan Stanley; Analyst
- Matthew Korn; Barclays Capital; Analyst
- Matt Murphy; UBS; Analyst
- Michael Gambardella; JPMorgan; Analyst
- Brian Yu; Citigroup; Analyst
- Nathan Littlewood; Credit Suisse; Analyst
- Phil Gibbs; KeyBanc Capital Markets; Analyst
- Andrew Lane; Morningstar; Analyst
- David Lipschitz; CLSA; Analyst
- Tony Rizzuto; Cowen & Company; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Good day, everyone, and welcome to the Nucor Corporation first quarter of 2015 earnings call. As a reminder, today's call is being recorded.

Later we will conduct a question and answer session, and instructions will follow at that time.

Certain statements during this conference call will be forward-looking statements that involve risks and uncertainties. The words we expect, believe, anticipate, and variations of such words and similar expressions are intended to identify those forward-looking statements, which are based on management's current expectations and information that is currently available.

Although Nucor believes they are based on reasonable assumptions, there can be no assurance that future events will not affect their accuracy. More information about the risks and uncertainties relating to these forward-looking statements may be found in Nucor's latest 10-K and subsequently filed 10-Qs, which are available on the SEC's and Nucor's website. The forward-looking statements made in this conference call speak only as of this date, and Nucor does not assume any obligation to update them, either as a result of new information, future events, or otherwise.

For opening remarks and introductions I would like to turn the call over to Mr. John Ferriola, Chairman, Chief Executive Officer, and President of Nucor Corporation . Please go ahead, sir.

John Ferriola (Chairman, President, CEO):

Good afternoon. Thank you for joining us for our conference call. As always, we appreciate your interest in Nucor . With me for today's call are the other members of Nucor's senior management team, Chief Financial Officer, Jim Frias; and our other Executive Vice Presidents, Jim Darsey, Ladd Hall, Ray Napolitan, Joe Stratman, Dave Sumoski, and Chad Utermark.

The entire executive management team would like to thank everyone on our Nucor Harris Steel, David J. Joseph, Duferdofin, NuMit Steel Technologies and Skyline's field teams for working hard, working smart, working together, and most importantly, working safely to take care of our customers in the first quarter of 2015.

The current steel industry challenges are significant, but whether it's a short-term challenge such as energy industry turbulence, or a structural challenge, such as excess global steel capacity, the Nucor team always runs toward the challenge, not away from it.

We address the challenges we face head-on. Times of adversity allow us to demonstrate the strength of Nucor's business model. With our unbridled competitive advantages and adaptability, Nucor grows stronger during periods of industry distress. Achieving that goal is the unrelenting focus of the more than 23,000 Nucor teammates each day, as they continue their excellent work implementing our Company strategy for long-term profitable growth.

I will now ask our CFO, Jim Frias, to review Nucor's first-quarter performance and financial position. Following Jim's comments, I will update you on current market conditions and execution of our strategy for long-term profitable growth. Jim?

Jim Frias (CFO):

Thanks, John. First quarter of 2015 earnings of $0.21 per diluted share compared favorably against fourth-quarter 2014 earnings of $0.65 per diluted share, and year ago first-quarter earnings of $0.35 per diluted share. The profitability of our steel mill segment for the first quarter of 2015 declined approximately 46%, compared to the fourth quarter of 2014.

An unprecedented level of imports flooding the domestic market in late 2014 and early 2015 has pressured steel selling prices, margins, and volumes for all of our steel mill products. The hot rolled sheet market is the weakest, as a result of the combined impact of surging imports and the severe inventory correction underway in the energy pipe and tube sector. Capacity utilization in our steelmaking operations fell to 65% in the first quarter of 2015, from the fourth quarter's rate of 76%.

Not surprisingly, our sheet mills experienced the largest decline quarter-over-quarter in production and shipments. Nucor's sheet mill shipments decreased 14% over this period, which compared to an 8% decline in total steel mill shipments. Steel mill profitability was also impacted by continued erosion in selling prices, that outpaced decreases in raw material costs.

A decline in steel ton prices exceeded the reduction in our composite scrap usage cost, which were $39 per ton quarter-over-quarter. Average sales prices dropped $70 per ton for plate, $67 per ton for beams, and $49 per ton for sheet.

The first quarter 2015 performance of our raw materials segment includes an operating loss of approximately $44 million, or $0.09 per diluted share, in our new DRI facility in Louisiana. That is larger than the approximately $35 million operating loss Nucor Steel Louisiana experienced in the fourth quarter. Our Louisiana team has completed repairs and adjustments to the process gas heater that failed in November of last year. Operations resumed during the last week of the first quarter.

On the positive side, our downstream products segment continues to capitalize on the slow but steady growth underway in non-residential construction markets. As expected, the segment's first-quarter profitability decreased from the fourth-quarter level due to typical seasonal factors. However, compared with a year-ago quarter, segment pretax profitability increased to more than $32 million from less than $2 million.

Particularly strong profit improvement was achieved in our joist and decking and metal building systems businesses. A quick comment about our tax rates, which can be confusing, due to the impact of profits from non-controlling interests. After adjusting out profits belonging to our business partners, the effective tax rate was 33.9% for the first quarter.

Nucor's financial position remains strong. Our gross debt to capital ratio was 36% at the close of the first quarter. Cash and short-term investments totaled $1.3 billion, including our net debt to capital ratio at approximately 28%. Our next significant debt maturity is not until December 2017.

Nucor's strong liquidity position also includes our $1.5 billion unsecured revolving credit facility, which remains undrawn. The facility does not mature until August of 2018. Nucor is the only North American steel producer to hold an investment grade credit rating.

Nucor continues to generate very robust operating cash flow throughout the cyclical up and downs that characterize the steel business. With our highly variable cost structure, we benefit from significant reductions in working capital during downturns. That was the case again in the first quarter of 2015, with cash provided by operations of $564 million, a dramatic increase from the year ago first quarter. Our strong cash flow allowed us to increase our liquidity and retired year-end 2014 commercial paper balance of about $150 million, that had been issued to fund a portion of the Gallatin Steel acquisition in the fourth quarter of last year.

First-quarter 2015 capital expenditures totaled $70 million. We continue to estimate full-year 2015 capital spending will be approximately $500 million. Most of our recent larger scale growth products have been completed, or are nearing completion. Depreciation and amortization for 2015 is expected to total about $700 million.

John made an excellent point about the strength of Nucor's business model. It is one that enjoys competitive advantages and a degree of flexibility that cannot be matched by any of our competitors in the North American steel industry. Nucor's strong balance sheet, consistently healthy cash flow generation, and conservative financial practices are critical components of our business model. Times of adversity, such as what our industry is currently undergoing, once again highlight the strength and value of Nucor's significant competitive advantages, and superior adaptability.

Our focus is not on survival, but on growing stronger. Earnings in the second quarter of 2015 are expected to be somewhat improved from the first quarter. The second quarter should be followed by further improvement in the second half of 2015, given the ongoing strength of non-residential construction and its impact on our steel mills and downstream businesses. Non-residential construction activity accounts for more than half of the end-use demand for our products.

Margins in the steel mill segment are expected to improve, although we will not realize the full benefits of lower raw material costs until there is greater stability in steel pricing. As service center restocking runs its course during this transition period, steel prices are expected to stabilize and rebound.

Second-quarter performance at our raw materials segment will reflect continued high losses at the Louisiana DRI facility, and the impact of the newly completed one month maintenance outage at our DRI facility in Trinidad. The Louisiana plant has resumed production, and will be consuming higher cost iron ore that was on hand when the plant suspended operations, following a failure in its process gas heater in early November.

Our steel products segment is expected to achieve continued improvement in profitability during the second quarter. All three major fabricating construction products, joist and decking, fabricated rebar, and metal buildings, are experiencing significant year-over-year gains in bookings, backlogs, and backlog margins. Over the past several months, our confidence has increased that the overall US non-residential construction market is set to deliver square footage growth in the range of at least 7% to 8% in 2015. Such a growth rate would still place the market almost 40% below the peak level of 2007.

Whatever short-term economic and steel industry conditions we face over the remainder of 2015, Nucor's unrivaled position of strength will allow our team to continue to execute on our proven strategies for delivering profitable long-term growth and shareholder returns. We appreciate your interest in our Company. John?

John Ferriola (Chairman, President, CEO):

Thanks, Jim. Nucor's culture has always been defined by our willingness to tackle and overcome challenges. We don't ignore problems, that's not an effective strategy for success or even survival. When confronted by challenges, we find ways to grow stronger, while fixing or mitigating the problem.

During the first quarter, unprecedented volumes of steel imports continued to be a major challenge for our industry. Blatant, barring government support of their steel industries has resulted in a glut of global steel production. A brazen disregard for international trade rules has led to the dumping of steel products in our market.

As a result, one in three tons of steel sold in the US today is produced abroad by less efficient, less safe, and less environmentally friendly countries. This is a real crisis for our industry. We are attacking this issue head-on, and fighting back. Nucor is working on a bipartisan basis with members of Congress and with the administration to ensure that we have the strong and effective tools to combat unfair trade.

If Congress passes trade promotion authority legislation, authorizing the President to enter into new free trade agreements, we believe the bill must be balanced with the strongest possible trade enforcement mechanisms, so that steel and other industries have the tools we need to fight this blatant disregard for international trade rules. There is substantial support from both Democrats and Republicans for doing this.

Additionally, the administration must take a much tougher line with countries that break the law. We have a set of rules governing trade. We follow those rules.

When foreign countries and producers break those rules, there must be meaningful consequences. Applying tariffs and other remedies is simply holding governments accountable for the agreements that they signed. To that end, Nucor continues to assess market conditions, and will be proactive and aggressive in pursuing trade cases, when and where it is appropriate.

I will now update you on some of our teams' organic growth initiatives, underway to improve our long-term cost position, and expand our product portfolios to include more value-added higher-margin offerings, that are less impacted by the tsunami of influence. After restarting operations at the end of the first quarter, Nucor Steel Louisiana is once again producing DRI at the world-class quality levels that our team established prior to the equipment failure. It is important to note that the process gas heater is not part of the DRI technology utilized by Louisiana, but is ancillary industrial equipment required to operate the plant.

During Louisiana's just completed shutdown, modifications to the process gas heater's original design were implemented to prevent the recurrence of a similar failure. One significant modification was the installation of two large dampers to able the process gas heater to control its cooling rate, which will expand the life of the tubes that have failed in the past. Another significant modification was the addition of a nitrogen purge to the outlet of the heater, to significantly reduce any collateral damage, in the event of any future tube failures.

Louisiana has been a challenging start up. Nevertheless, it is a major step forward in the implementation of our long-term strategy to optimize our end unit costs. In fact, we believe it has already provided short-term benefits.

The presence of our Louisiana DRI facility having produced 1.3 million tons last year, and preparing to resume production at the end of last quarter, was a meaningful factor supporting February's dramatic downward adjustment of more than $100 per ton in scrap pricing. That very much supports our belief in the long-term benefit of our DRI investment.

In the first quarter of 2015, our Hertford County, North Carolina plate mills recently added heat treating and normalizing assets, continued to run at full capacity of approximately 245,000 tons annually. The Hertford County team is capturing a growing share of value-added and higher-margin plate products. Relative to an investment of approximately $150 million, our value added capabilities offer incremental pre-tax profit that should average $200 per ton through the cycle.

During the first quarter, the first field installation of Nucor-Yamato's new wider chief filing sections was successfully completed. This new product is the result of a $115 million project we started up in the fourth quarter of last year. Our customers will benefit from this new domestic pilot solution, as they pursue buy American government-funded infrastructure projects.

Nucor-Yamato's expanded product portfolio will also create valuable synergies with the other products and services offered by the Skyline Steel piling distribution business we acquired in 2012. Our goal over the next several years is to grow our wider piling sections' annual volume to 100,000 tons, with combined steel mill and distribution pre-tax profit potential of approximately $450 per ton.

Momentum continues to build at Nucor Steel Berkeley's $98 million wide light capital project, that started out in early 2004, and has shipped approximately 120,000 tons last year. We expect to ship about 200,000 tons of the new products in 2015, and eventually grow volume to be at least 300,000 tons annually, with pretax profit averaging $100 per ton through the cycle. Berkeley now has the lightest hot roll gauge capability of any sheet mill in the southern United States market, and with a finished width capability of up to 72 inches. Of particular importance, the upgrade allows Nucor to produce thinner, high strength steel grades, that we plan to use to develop lightweight automotive applications.

As I've said earlier, these are just some of the growth initiatives. I look forward to updating you again next quarter on our progress implementing our strategy for profitable growth.

Here are some of the reasons why I believe Nucor will continue to deliver profitable, long-term growth and industry-leading returns on capital. Our low and highly variable cost structure is Nucor's bedrock competitive advantage. We understand that to generate attractive returns in a commodity business, you have to be a low cost producer and seek continual improvement in your cost structure.

Our balance sheet, strength and through the cycle cash flow generation underpins our long-term focus and ability to take advantage of profitable growth opportunities, particularly during cyclical downturns. Our upstream vertical integration into raw materials enhances the profitability and flexibility of Nucor's core steel making business. The David J. Joseph Company's unmatched global raw material supply chain, combined with our investments in DRI and scrap yards gives Nucor best in class capabilities and flexibility in optimizing what is by far our largest single cost item, high-end units.

Our industry leading product and market diversity continues to grow, as we move up the value chain in all of our businesses. Our downstream vertical integration into value-added steel products enhances the profitability and flexibility of Nucor's core steelmaking business.

Our expanded channels to market such as Harris Steel, Steel Technologies, and Skyline Steel, increase our ability to compete with unfairly traded influence, by expanding our opportunities to add value to our customers. Our commitment to achieving commercial excellence by leveraging Nucor's competitive advantages such as product diversity and operational flexibility, to create more value for, and build stronger relationships with, each of our customers.

And most importantly, Nucor's employees. The right people. They embrace the Nucor culture's pay-for-performance philosophy, and passion for continuous improvement and taking care of our customers, our shareholders and their fellow teammates. That is why they are our Company's greatest asset, and our greatest competitive advantage.

As has been true throughout Nucor's history, our Company's best years are ahead of us. Thank you for your interest in Nucor . We would now be happy to take your questions.

QUESTIONS & ANSWERS

Operator:

(Operator Instructions)

Luke Folta, Jefferies.

Luke Folta (Analyst - Jefferies):

John, can you help me bridge the gap between the commentary around non-res construction improvement and the shipment levels in the first quarter? If I look at some of the key categories, structural and even in the joist and deck arena, and the bar business, there's some fairly healthy declines year-over-year. Could you give us some color on what that is driven by? Is that mostly in import issue, or is it timing?

John Ferriola (Chairman, President, CEO):

It's actually a combination of imports and timing. You're comparing it to first quarter of 2014 and if we focus on one, let's pick structural, but for the most part, --

Jim Frias (CFO):

I think he was compared to the fourth quarter.

John Ferriola (Chairman, President, CEO):

Were you comparing to the first quarter or quarter of last year?

Luke Folta (Analyst - Jefferies):

I'm looking year on year, 1Q to 1Q.

Jim Frias (CFO):

My bad.

Luke Folta (Analyst - Jefferies):

That's fine.

Jim Frias (CFO):

If we focus on one particular area, let's just take structural, the reasons are basically the same for all of the categories. At the beginning of 2014, we're looking at a situation where, as you said, imports were much lower, service center inventories were down. We were going into a year where nonresidential construction was projected to be up. Frankly, in the first quarter, we were talking about price increases that were out there. So a combination of all of those resulted in much higher order entry rates in the first quarter of last year, compared to the first quarter of this year.

Luke Folta (Analyst - Jefferies):

Okay. If you look at the full-year expectation, given that you said square footage, expect it to grow about 7% to 8% this year, outside of the first quarter issue, as it pertains to destocking and imports, would you expect that these categories should grow about in line with that pace?

John Ferriola (Chairman, President, CEO):

Again, taking imports out of the equation, if we see the growth that we are projecting in nonresidential construction, we should see volume increases compared to the first quarter, particularly as we move out of the seasonal issues that are affecting the first quarter in a lot of our businesses. Particularly when you look at some of the downstream businesses such as Harris, where frankly, it's hard to do a lot of construction work in the first quarter of January and February, and many of our Harris facilities are located in Canada, just to amplify the situation. So we do expect to improve as we come out of the first quarter. Weather conditions improved, and we see the expected increase in nonresidential construction.

Luke Folta (Analyst - Jefferies):

Okay. Just secondly on DRI, understanding that we've got high cost inventory to work through and that impacts unit costs, the average as well, if we imagine a scenario where we stay in the $260, $275 pig iron environment and iron ore is $50 could you give us some sense of how we should think about profitability of DRI at full production? Is it profitable meaningfully at that level?

John Ferriola (Chairman, President, CEO):

It would be cash positive at those levels. When you're talking about pig iron at $250. We do transfer our DRI on a pricing mechanism that's based upon pig iron.

And I would say that at the level of about $250 for pig iron, we are cash positive. I would also point out, or I'd be quick to point out, that I personally believe $250 for pig iron is an unsustainable level. It's a result of some significant and unusual currency issues and geopolitical issues. So I personally would not expect that to stay at that low level long-term.

Having said all of that, we said from the beginning when we talked about the DRI project, that over the course of the cycles, there's going to be times when we hit singles, times when we bunt, and sometimes when we hit grand slams. We talked just last quarter about the very positive contribution from our Trinidad operation, when pig iron was at a more normalized rate. And we expect it to be back up to those levels again, and we expect to see very good returns on our to DRI investment when that occurs.

Luke Folta (Analyst - Jefferies):

All right. Thank you, gentlemen.

Operator:

Timna Tanners, Bank of America Merrill Lynch.

Timna Tanners (Analyst - Bank of America Merrill Lynch):

Wanted to make sure I can understand what happened between your initial qualitative guidance, to the quantitative guidance, to the beat. Can you talk us through what changed in your assumptions, or what changed in the market environment to change the outcome?

John Ferriola (Chairman, President, CEO):

Certainly, we can do that. As always on these things, there's many, many factors. But the key, the driver for all this is frankly the steel performance, the performance of our steel mill.

In forecasting, we underestimated the impact that we would have on our margins of scrap pricing going down. We got through and realized a lower scrap price quicker. And frankly, in some of our products, we have higher volumes. So the combination of an improved margin relative to our forecast and some volume increases above our forecast, we did beat the forecast, as you mentioned.

Timna Tanners (Analyst - Bank of America Merrill Lynch):

Okay. So two questions, to finish up then, that fall out of that is, one, why did prices fall less in sheet than they did in plate and beams? It's a very hard profile to see how much sheet prices have fallen recently, but plate and beams I thought had fallen just more recently with the $100 scrap move just in February. So why did you see plate and beams fall more than you did in sheet in the quarter?

John Ferriola (Chairman, President, CEO):

One element that you have to take into account when you -- to answer that question is that some portion of our sheet business is on quarter-over-quarter contract pricing, that is based on some mechanism. So when there's a lag time before you see that decrease in those contract pricing. I would also point out that although the import situation is very serious on sheet product, particularly plate, there has just been an unbelievable tsunami of import, imported plate over the last two quarters, and that of course, had a dramatic impact on our pricing of plates.

Timna Tanners (Analyst - Bank of America Merrill Lynch):

Okay. That's helpful. The only other thing I wanted to ask is, maybe it's philosophical, but I've just been surprised at how -- I know prices always over correct in a down market, but why would a Company like a mini mill like yourselves, who has the flexibility to ramp down, continue to produce at these very low prices and to match imports? Isn't there a price at which you say, no, I don't want to make that low a margin, and I'm going to hold out, and you know that prices are expected to recover. Why has everybody, including yourselves, I guess, continued to produce and offer these low price tons at import levels? Import equivalent levels? What do you think?

John Ferriola (Chairman, President, CEO):

Well, it's always a balance. Right? You want to look at the volume put through your facility, which obviously impacts your fixed costs of that facility. So that's one issue.

Secondly, we need to take care of our customers. We don't want to give up market share. Sometimes when you lose a customer or lose a business opportunity, it's hard to regain it, and our customers count on us being there, even when it's a difficult pricing environment. So those are a couple of reasons that we continue to operate.

I'll also point out that Timna, and let me know if I didn't answer that question, if I didn't cover what he wanted to hear on that. But given the radical change in the scrap cost, which we frankly believe were coming, because of the large gap between scrap pricing and iron units, we felt that we could work our way through those tough times, keep our customers satisfied, maintain our market share, not lose good opportunities, knowing that we would ultimately be able to, as a result of our scrap costs going down, be able to correct pricing and get it closer to the market, to the imported price and maintain our margin.

Timna Tanners (Analyst - Bank of America Merrill Lynch):

That makes sense. Thanks for the answer.

Operator:

Evan Kurtz, Morgan Stanley.

Evan Kurtz (Analyst - Morgan Stanley):

My first question is on trade. So, it seems like you're taking a two-pronged, or maybe the industry is taking a two-pronged approach to trade issues. One is just putting together a trade case, we keep hearing about on flatrolled.

But the other is on the legislative front, Senator Brown has got leveling the playing field rules that he's, I assume, trying to attach to the TPA at this point. So it seems like maybe there's a chance you get some of these rules that would actually change the way that harm is measured in the US through in the next few months here. How do those two things impact one another?

My question is, would you wait to file a trade case on flat roll if you think you could maybe change the rules at the ITC on the harm decision? Or are those completely independent?

John Ferriola (Chairman, President, CEO):

When we fight, we use both fists, okay? So those are the two-pronged approach, and we're going to use both of those prongs to achieve a level playing field, so that our teammates can be successful, which we know they will be, on a level playing field.

I've mentioned on the last couple of calls that I thought we were gaining traction in Washington, on both of those fronts. I still do. We are getting a much better reception. People are beginning to understand, I believe, people are beginning to understand the impact of these illegally traded products on our industry, and on our teammates, and steelworkers in general.

It's about focusing and pursuing trade cases when it's appropriate, and moving forward on the legislative front at the same time. We see great opportunity, frankly, on the legislative front, particularly with the TPA discussions that are going on today. We are pushing very, very hard, and getting good reception on both sides of the aisle, to the concept that if TPA is going to be approved, it must be approved with strong trade language to protect our industries, and give us the ability to better, and more effectively, and more proactively fight illegally traded products.

Evan Kurtz (Analyst - Morgan Stanley):

Great. Maybe on the trade case, what's your outlook there on timing? It seems like it's been a pretty weak first quarter for most folks, at this point. And second quarter, probably for most folks will also be fairly difficult. Do you think the case is ready to bring at this point, or do you need to demonstrate more harm before the industry is comfortable filing?

John Ferriola (Chairman, President, CEO):

Let me be clear. We will continue to assess the market and we will implement the trade case at the appropriate time.

Evan Kurtz (Analyst - Morgan Stanley):

Okay. And then one last one, quickly on scrap. What's your view for the upcoming month? It seems like flu is maybe starting to pick up a little bit, which would be negative, but maybe demand's coming back. Where do you think it all shakes out?

John Ferriola (Chairman, President, CEO):

Frankly, our forecast would be pretty flatlined for the rest of the year. Obviously, when you talk about scrap, there's always slight variations in different regions. We expect some movements from different regions, up $5, down $10, so forth as we go throughout the year. But overall, as you look at the year as a whole, I think we're going to be pretty flatlined on scrap pricing.

Evan Kurtz (Analyst - Morgan Stanley):

Great. Thanks for that. I'll turn it over.

Operator:

Matthew Korn, Barclays.

Matthew Korn (Analyst - Barclays Capital):

Let me ask, how much have your lead times improved today say, versus the bottom of this previous quarter? And how deeply are you sold into May, June, particularly as you're expecting much better results from the downstream segment looking ahead?

John Ferriola (Chairman, President, CEO):

Well, as we mentioned in the script, this is a quarter of transition. So we're not quite sure when we'll see that actual kick in. Today, there's, I would say, a very modest improvement in lead times, very modest frankly, not significantly over first quarter. That would expand or go across, apply to basically all of our products.

Now, the one exception I would add to that is in the sheet side on the galvanized and the cold rolled products, those lead times are longer. We still see a pretty strong demand in that area.

Matthew Korn (Analyst - Barclays Capital):

All right. Following up on that, and on your volume expectations, gradual construction and order demand improvements, when you're looking into the transitional second quarter, is the improvement in earnings really going to be mostly a margin expansion story on the realization of lower scrap costs, or could you see some real volume improvement?

John Ferriola (Chairman, President, CEO):

I'd say it would be a combination of the two. And again, if you divvy it out further than that, get more specific than that, very difficult to do. I would say that it was a combination of both.

Matthew Korn (Analyst - Barclays Capital):

Got it. Appreciate the time, gentlemen. Thank you.

Operator:

Matt Murphy, UBS.

Matt Murphy (Analyst - UBS):

I was just wondering what your capacity utilization is right now. If it was 65% on average for Q1, would it be lower than that now?

John Ferriola (Chairman, President, CEO):

It's about the same. I can't speak to what it is exactly today, but so far, we've been about the same.

Matt Murphy (Analyst - UBS):

Okay. And I guess I'm just wondering, what -- does the recovery profile of that, like we should basically be watching imports coming off to drive that back up?

John Ferriola (Chairman, President, CEO):

Well again, it will be a number of factors. Imports beginning to drop off, but what we have seen and I want to stress that it's going to be a while before we see that drop off, although we've seen a slight decline in licenses, there's so much out there in the pipeline that this is going to take, and so much has already reached the service centers and just build up their inventories, it's going to be a while before we work our way through that.

Now, I can tell you that for the first time this month, the numbers that just came out on service center inventories, we've seen them being down just a little bit. But imports are something you can certainly watch. And there's other factors too, particularly on our sheet business. When you want to look at oil prices, I can't tell you when it's going to recover, but certainly, we've seen a tremendous impact on our flatrolled business as a result of oil pricing going from $100 to $50. Our volumes are way down.

Same situation there. We've flooded the pipeline with material. There's been a complete stop as they work their way through this inventory.

At some point, I frankly don't think it will be in the second quarter, but some point during the course of the year, maybe third or fourth-quarter we'll start working hour way through that inventory. And we'll see order rates that are consistent with the new normal drilling levels that are expected with the lower price.

Another thing you could keep your eye on is currency. Obviously the strong dollar had an impact on what's happening, both on a raw materials side and on our steel shipments side, as it relates to imports and other factors. So I've tried to give you a couple of things that you could keep an eye on, but there's a multitude of things that we have to watch to see what's going to happen as we go forward.

Matt Murphy (Analyst - UBS):

Yes. That's good color. I'm basically just looking, is this a three-month thing or a six-month thing? I understand it's dependent on all those factors.

I guess on scrap prices, I've been a little bit surprised that no one's expecting, it seems, much more weakness there, given we've seen continued iron ore weakness. So I guess just on scrap, what's the confidence that we've got some pricing stability for a while here?

John Ferriola (Chairman, President, CEO):

Well, all I can tell you my confidence level. We gave you our projection, we believe in that projection. We think that it's going to be fairly stable. Right now, iron ore pricing, it fluctuates a little bit but it's been relatively stable. Also, if there's a dramatic change in iron ore pricing it might have a reflection in scrap pricing, but we don't see that at this time.

Matt Murphy (Analyst - UBS):

Okay. Thanks.

Operator:

Michael Gambardella, JPMorgan.

Michael Gambardella (Analyst - JPMorgan):

Have a question. If you are assuming that scrap prices are going to stay relatively flat the rest of the year, and you saw this massive $100 drop a couple months ago, when do you, or are you now picking up share against the integrated mills who are basically at fixed costs and when you get the $100 drop in scrap, they saw very little of it?

John Ferriola (Chairman, President, CEO):

Well, obviously, it's made us much more competitive. And the reason people buy steel is based upon four things. I've said this many times. Service, quality, on-time delivery, and price.

When we were in a situation where there was such a difference between scrap and iron ore pricing, we were at a real disadvantage on pricing, and that impacted our competitive position. Frankly, when I think about how we did during that period where the gap was so large I'm really proud of the job our team did on the other three elements of quality, service and delivery. That kept us in the game, when we had $100 differential on cost.

Now that has been reduced, with scrap coming down, very confident that we will continue to be aggressive. And now we've got -- we're competitive on all four of those elements, and I feel good about the way that we'll go forward in terms of gaining market share.

Michael Gambardella (Analyst - JPMorgan):

Is your sense that you're gaining market share now?

John Ferriola (Chairman, President, CEO):

I'm not going to get into specifics at any one point in time. I'll just say again, now that we have the pricing, competitive with not only integrators, but we've reduced the gap between important pricing and our pricing, and we delivered superior quality service and delivery, based on all of that, I'm confident that our team will gain market share as we move forward throughout the year. Now, there's going to be a lot of factors that come into that, as we have talked about in the past.

Michael Gambardella (Analyst - JPMorgan):

Thanks a lot, John.

Operator:

Brian Yu, Citi.

Brian Yu (Analyst - Citigroup):

Just wanted to follow-up on Timna's comments earlier. I guess I'm equally surprised that spot price has been completed down below $450, and I know imports continue to be a big problem, but if you just look at where import offers are today versus physical flows and the like, do you think we've passed the point where now it's more about domestic competition for market share versus all of the domestic producers trying to keep out the imports?

John Ferriola (Chairman, President, CEO):

Let me be real clear about this. Imports continue to be our number one threat. We're focusing on pricing here, but you need to remember that there's such a tremendous over capacity, you're looking at 300 million tons of excess capacity worldwide.

That is going to continuously put pressure on our market and our profitability. Now, having said that, we have reduced the gap between domestic pricing and import pricing, but look, imports are going to continue to be our number one challenge for our industry, and our Company as a whole.

Brian Yu (Analyst - Citigroup):

Okay. Second question, this is more with your iron ore pellets inventory. How much inventory do you keep on hand at Louisiana? I think you mentioned earlier that you're probably going to use through the high cost in second quarter. So if that occurs --?

John Ferriola (Chairman, President, CEO):

Well, let me first, if I may, just correct that, because I want to make sure we're clear on this. Today, there's a gap of about $60 between the pricing of the iron ore that we have on the ground, and what market pricing would be. At the end of the second quarter, we expect that we will reduce that gap from about $60 down to about $15.

We'll reduce the gap by $45 at the end of the second quarter. It will take us through the third quarter, sometime around the middle or towards the end of the third quarter, before we reduce that last $15 gap, and get us down to market price for iron ore. Now, please continue with your question, but I wanted to correct that and be very specific on that.

Brian Yu (Analyst - Citigroup):

All right. That was a lot more information than I would hope for, so great. Maybe along those lines, how much inventory do you typically keep on hand? If we see prices move down in Q1, how long before that actually flows through in a more normalized basis? And then --?

John Ferriola (Chairman, President, CEO):

You're asking now about iron ore? You asked about iron ore?

Brian Yu (Analyst - Citigroup):

Just iron ore in general.

John Ferriola (Chairman, President, CEO):

That would be about five to six weeks at Louisiana.

Brian Yu (Analyst - Citigroup):

Okay. When you take these inventory adjustments, does some of that LIFO credit incorporate assumptions about iron ore pellet costs in there? Or is that completely separate?

Jim Frias (CFO):

Well, it certainly affects our LIFO calculation at the steel mills that are on LIFO, but the DRI plans are not under LIFO.

Brian Yu (Analyst - Citigroup):

Okay. Got it. Thank you.

Operator:

Nathan Littlewood, Credit Suisse.

Nathan Littlewood (Analyst - Credit Suisse):

Just had a couple of questions. The first on market share, on the back of Matt's question earlier. Could you talk a little bit about where you might be seeing market share opportunities in the back half of the year, be it either by product or end market?

John Ferriola (Chairman, President, CEO):

Well, we talked about the growth the organic growth that we've had, and the products that we're bringing to the market. So certainly, we would expect to see market share growth in our structural business, with our new piling sections. When we talked about the growth in the sheet side of the business, with wide light project, and how we expect that to grow year-over-year. SBQ would be another area. As we continue to bring new products onto the marketplace, we are continually moving forward with our projects in SBQ, so I expect market share growth in that area also.

And so what did I leave out, plate? We mentioned we're running our heat treat and mobilizing and running basically at full capacity. And I mentioned the projects that we're doing on our bar mills, SBQ mills, so I don't want to leave our rod products, which we are introducing new rod products to the market that have been accepted very well, so we expect to grow our market share there also.

And as I've mentioned on calls in the past, one of the few bright spots in the marketplace today is automotive. And we expect to grow our participation in automotive this year also. Last year, we shipped about maybe 1.1 million tons, sheet and SBQ combined products into automotive. And this year we are anticipating shipping about 1.45 million tons of combined sheet and SBQ into the automotive market.

And part of that's being supported by, I'm going to put a little plug in here for our new Detroit automotive office, that we've just established. And it's been well-received by the automotive companies. We had metallurgical and engineering teammates and salespeople in that office, to help support our push into automotive.

Nathan Littlewood (Analyst - Credit Suisse):

That's useful. John, are there any updates on the exposed auto or body-in-white industry, since last we spoke about this?

John Ferriola (Chairman, President, CEO):

Certainly body-in-white, that's one of our strong points that we're moving into. And when you say exposed, exposed accounts for about 15% of the weight of steel per vehicle. And certainly, we want to play in that game, and we do. We have a product that we can put into that, and have put into that exposed application, but it's clearly not a focus point for us.

When we look at body-in-white, we see 75% of the volume going in there. That's our focus point. When we look at what they call closures, which represents 25%, the remaining 25% and only 10%, 15% of that is exposed, so combined, you're looking at 15% out of the total weight of the car. It's not something, not what our major push is going to be.

Nathan Littlewood (Analyst - Credit Suisse):

Got it. Okay. That's helpful. My final one was just on the DRI project, in raw materials. So look I totally understand the raw material strategy here. And we do like the fact that there is this additional flexibility built into your iron units procurement here.

But could we consider a scenario where the pricing environment is just not conducive to DRI being profitable? And let's assume it's something to do with iron ore and pig iron spreads? Could you talk a little bit about what sort of flexibility you have in your raw material contracts to effectively flex those volumes down? And say, reduce DRI output, just because it isn't profitable, or it can't be profitable? And perhaps then bring it back again later in the future when margins or spreads are a bit more conducive to that plant being profitable?

John Ferriola (Chairman, President, CEO):

We get our raw material iron ore from four different sources. I'm not going to give you the specifics of what kind of contracts we have with each one of those particular suppliers, but in general, we have a level of about 25% to 35% flexibility in the supply of raw material iron units. So we could cut it back 25% or 35%, and I'm talking now, across all the contracts. I'm not going to get any more specific than that.

But if I may, I want to take a moment here because there was a question earlier about the DRI, and how should they look at when the cost of iron units is going down, we would see an improvement. And I answered the question because it was tied originally back to the amount of weeks on hand of iron ore supply inventory we had. And I said that we keep about five to six weeks of inventory on the ground.

That is an accurate statement, but if he was looking to get some sense of when pricing changes, relative to iron ore pricing on an index basis changes, we need to factor in the issue that we buy on a quarterly basis, with a lagging quarter. So for whoever asked that question earlier about seeing changes in the pricing of our raw material going into Louisiana, please bear in mind when you see the change occur in the index, there is a one quarter lag in the pricing that we receive at the plant itself. Okay?

Nathan Littlewood (Analyst - Credit Suisse):

Great. Thanks very much, John. I appreciate it.

John Ferriola (Chairman, President, CEO):

That correction is credited to Joe Stratman, who held up a piece of paper, and said, quarterly prices.

Operator:

Phil Gibbs, KeyBanc Capital Markets.

Phil Gibbs (Analyst - KeyBanc Capital Markets):

Just had a question on the US rationalization of scrap collection and processing, and maybe what you've been seeing there the last couple months? And whether or not you will be participating in that trend?

John Ferriola (Chairman, President, CEO):

Clearly, as the pricing has dropped, and everyone that's in the processing game knows it's been very challenging, margins have been severely compressed, and it's very challenging for processors to make a decent profit, and we expect to see some people not making it through this very difficult time. Certainly, we have a strong balance sheet, which gives us the opportunity, and we have a strong balance sheet and a history of taking advantage of downturns in troubled times to grow our businesses.

So we'll keep an eye out for assets that come available, when they make sense, they fit into our strategic plan for raw materials, the locations are right, the pricing is right. I'll tell you what, we won't be shy. We'll be at the table.

Phil Gibbs (Analyst - KeyBanc Capital Markets):

John?

John Ferriola (Chairman, President, CEO):

Yes?

Phil Gibbs (Analyst - KeyBanc Capital Markets):

Just curious as to whether or not you're seeing actual rationalization, particularly in the South?

John Ferriola (Chairman, President, CEO):

We haven't seen much of it yet. But remember that usually a lot of times, it's not during the downturn where you see the greatest pressure on these smaller companies, but actually during the upturn when they have to start replacing inventory. When you're depleting inventory, you generate cash. When you have to replace inventory, you burn through cash, and sometimes that can be more challenging as it bottoms out and begins the upturn, when you really see companies struggle to stay in business.

Phil Gibbs (Analyst - KeyBanc Capital Markets):

Okay. Then I appreciate that, and I just had a question for clarification because you were generous enough to give out some of the targets here on Hertford, Yamato and Berkeley on those projects. Were you saying that the Hertford normalizing line is about $200 a ton over what your normal mix is? And then the same thing with Yamato on the $450, and then Berkeley on the $100? Thanks.

John Ferriola (Chairman, President, CEO):

That is correct. That is correct.

Phil Gibbs (Analyst - KeyBanc Capital Markets):

Appreciate it. Good luck.

Operator:

Andrew Lane, Morningstar.

Andrew Lane (Analyst - Morningstar):

Couple questions here. First, I wanted to ask about the upcoming DRI facility outage in Trinidad in the second quarter. Is that a standard maintenance project, or are you implementing process improvements that you have just implemented at the Louisiana facility? And then on a related note, is the timing related to the availability of low-priced pig iron from abroad, and what will be the anticipated operating loss associated with the outage? Thanks.

John Ferriola (Chairman, President, CEO):

Okay. Let me work through this. No. This is, in fact, a planned preventative maintenance program shut down, that is scheduled in advance, and must be done on a regular annual basis. Without getting into all the technical jargon, you need to shut down and clean out the piping in the currents.

It's done about once a year. It takes about a month. It's a normal process. Now, we are frankly adding a piece of equipment in Trinidad that has nothing to do with the Louisiana situation.

It's a polisher, what we call a briquette polisher, to improve the yields, as the product ships from Trinidad to the United States. But that's a side issue. There's no failure in Trinidad. No anticipated failure. It is strictly a planned maintenance outage. And in terms of what we expect it to hit us, Jim, do you have that number?

Jim Frias (CFO):

I'm sorry. I was listening to somebody else.

John Ferriola (Chairman, President, CEO):

The question that was asked was can we have an estimate on what the cost of that project is?

Jim Frias (CFO):

We don't have the estimated losses during the outage, but it will probably be less than what we saw from Louisiana, obviously for the quarter. It's going to be much less than that, but there will be some losses from the lost production of one month.

Andrew Lane (Analyst - Morningstar):

Okay. Thanks. To change gears a minute, given your unique perch to observe the scrap market, to what degree have you seen scrap collection rates dry up in this lower price environment? And how low would scrap prices have to fall, before you'd expect availability to become a legitimate concern?

John Ferriola (Chairman, President, CEO):

Well, although pricing is dropping, which does have a negative impact on collection to flow into the yards, bear in mind that it's also spring, so that's a time when people are out collecting, more so than in winter. Transportation is not a factor, like it is in winter, so they balance out. And although we've seen a small amount of decrease in flow to the yards, it's not been significant, and it's balanced by the two factors of lower pricing, offset by springtime.

And there's another issue just to build upon that, something that hasn't come up in all the discussion we've had today about scrap, and I'm a little surprised by it. But bear in mind that the other thing we look at to keep the supply of scrap up in the United States is the loads that we buy offshore. Particularly with the way the currency is today, we've been importing quite a bit of scrap from overseas.

Andrew Lane (Analyst - Morningstar):

And where is the majority of that scrap, that incoming scrap, coming from?

John Ferriola (Chairman, President, CEO):

As a general statement, Europe.

Andrew Lane (Analyst - Morningstar):

Okay. Great. Thanks for the color.

Operator:

David Lipschitz, CLSA.

David Lipschitz (Analyst - CLSA):

So quick question, you talked about pig iron being low, and expect eventually to bring it back up, how do you think the removal of export tax on pig iron out of China is going to impact that, though?

John Ferriola (Chairman, President, CEO):

Well, if it's a removal of an export tax, it should go up. Right?

David Lipschitz (Analyst - CLSA):

No. They'll be able to export more.

John Ferriola (Chairman, President, CEO):

Yes. So I meant the volume will go up, the volume of exports will go up. I'm not sure how much of that would actually make its way to the US in some of the markets. I would expect that there would be other markets that it would go to in Europe, in Asia, and even in India, would be more logical markets from a logistics perspective here in the United States.

David Lipschitz (Analyst - CLSA):

I'm just wondering whether that would continue to put pressure on pig iron prices?

John Ferriola (Chairman, President, CEO):

Absolutely. It's economics 101, supply and demand. Whenever you have a situation when more supply is coming into the marketplace, it puts pressure on pricing. But I would ask you to consider one factor, and that is, I can't attest to the quality of the pig iron coming out of China. That might be in question.

David Lipschitz (Analyst - CLSA):

Okay. And you don't think lower pig iron prices could potentially put more pressure on scrap as well, that people start to take more pig iron and then scrap prices could go lower?

John Ferriola (Chairman, President, CEO):

Same reasoning. More supply from iron units into the market, tends to bring pressure on all aspects of iron units, scrap, pig iron, DRI.

David Lipschitz (Analyst - CLSA):

Okay. Thank you.

Operator:

Tony Rizzuto, Cowen and Company.

Tony Rizzuto (Analyst - Cowen & Company):

John, is there a rationale for the mills not raising prices yet? Service centers indicate they would be receptive. We see the NFCI inventories still a bit higher, but they are moving in the right direction. Anecdotally we're hearing that end-users are living for the most part hand to mouth. I'm just wondering how you feel about that.

John Ferriola (Chairman, President, CEO):

Well, if there's a service center out there that wants some tons from us guaranteed at higher prices, send them our way. Okay?

Tony Rizzuto (Analyst - Cowen & Company):

Okay.

John Ferriola (Chairman, President, CEO):

That's a general statement, I understand your point. It's about an inflection. When are you at the bottom?

If you're asking me where I think we stand on that cycle, we said a couple of times during the course of the call that this is probably a transitional quarter. So we might see something this quarter, but I would ask you to remember that there's still a tremendous amount of imports that are in the pipeline that are on their way here to the United States. So that continues to put pressure on pricing.

But as I said, listen, we're not opposed to selling steel at a higher price. We like to do that. But we also have to take care of our customers, maintain our market share, all of those factors that we spoke about earlier in the call.

Tony Rizzuto (Analyst - Cowen & Company):

Okay. Fair enough. My second question is, some of the industrial companies are starting to talk about some signs of softening with regard to US demand. Are you seeing any signs of deceleration anywhere in your end markets, outside of energy?

John Ferriola (Chairman, President, CEO):

I'd have to say no. In fact, I would say that our downstream products group, just the opposite is true. We see a significant improvement in backlog, order entry, and backlog pricing.

Tony Rizzuto (Analyst - Cowen & Company):

And would that be the same, John, from a standpoint of geographic as well?

John Ferriola (Chairman, President, CEO):

I'm not sure I understand what you mean by that.

Tony Rizzuto (Analyst - Cowen & Company):

Just in terms of different parts of the country, obviously you have pretty good exposure.

John Ferriola (Chairman, President, CEO):

Is there any one part of the country in which we are seeing more of that? It's pretty well-balanced, no gating. I might say in Canada, we're seeing again, Paris rebar, we're seeing much more improvement because they were down so significantly, because of weather conditions in the first quarter. But other than that, pretty well-balanced.

Tony Rizzuto (Analyst - Cowen & Company):

Okay. Thanks very much. I appreciate the color.

Operator:

And this concludes the question-and-answer session. I'd like to turn the call back to Mr. Ferriola for any additional or closing remarks.

John Ferriola (Chairman, President, CEO):

Let me conclude by saying thank you. Thank you to our shareholders. We appreciate your confidence and your support. Thank you to our customers. We appreciate your business.

I want to say thank you to my Nucor teammates for creating value for our customers, generating attractive returns for our shareholders, and building a sustainable future for all of us. And most importantly, thank you all for doing it safely. Thanks for your interest in Nucor . Have a great day and a great weekend.

Operator:

This does conclude today's conference. Thank you for your participation.